INDIA'S OUTWARD AND INWARD FOREIGN DIRECT INVESTMENT – POST LIBERALIZATION PERIOD

INDIA KÜLSŐ ÉS BELSŐ KÜLFÖLDI KÖZVETLEN BERUHÁZÁSA – POST LIBERALIZÁCIÓS IDŐSZAK

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Abstract

Research identifies and discusses inward and outward foreign direct investment after the post-liberalization period. Trade investment policies played a critical role in encouraging and facilitating the OFDI (outward FDI Inflow). The Indian liberalization period has three phases, the first in 1992 when India opened the market for the world, the second phase of liberalization was undertaken by way of FEMA (1999) beginning, which is the major change in India's forex regulation act. The third is 2014 when India reanalyzed the FDI policy and promoted as a manufacturing hub to the world. India in 2016 was placed the ninth on global IFDI ranking and attracted global attention. OFDI, with a large number of motivation, strategies along with the series of policy liberalization and series of deregulation are the driving force required to enhance this OFDI outflow from India. This paper compares the inward and outward FDI flow of the post-liberalization period.

Keyword: Outward foreign direct investment, FDI, India, economy, deregulation, liberalization

1. Introduction

Concerning the case of outward FDI flow there are limited studies available. According to IBEF, India has emerged as one of the strongest performers in the OFDI case across the world in mergers and acquisitions. M & A activity in India more than doubled year-by-year to reach US$ 61.26 billion in 2016-17, since Indian firm Before Brexit UK was the entrance source of entry in the European market. In a recent development, the UK announced in the news of an officially owned newspaper in 2013 that India became the third largest source of FDI for them [illegible] w and safeguarded [illegible] forts to attract FDI which could contribute to an increase of inflows in 2017.

Kumar 2008, Nayar 2008, Pradhan 2007 researchers suggest that during 2000s a large number of outward FDI proposals under the Automatic Route had been raised. India is developing the country with scarce capital resources and low foreign reserve. The country is largely depending on IFDI to finance the BOP but at the same time, it becomes the exporter of OFDI to the world capital market. Evidence from IMF data shows that India was the third largest PPP (purchasing power parity) based on economy after China and the USA in 2016. Part of India's OFDI is the large number of motivation, strategies along with the series of policy liberalization and series of deregulation which are the driving force required to enhance this OFDI outflow from India.

2. Material and Methods

The inflow of attracting massive continuous investment of India has-been on since 1993, after the opening of its economy. The liberalization of the Indian market is divided into three waves. The first wave lasted from1991 to 1992 when India introduced the liberalization steps and opened the economy for the world. The Foreign Exchange Regulation Act (FERA) of 1973 in India was replaced in June 2000 by the Foreign Exchange Management Act (FERA), the second wave lasted from 1999 to 2000 which was passed in 1999.The third wave was in2014 when India launched Make in India initiatives in September 2014, with 48 percent (Press Information Bureau Government of India Ministry of Commerce & Industry 14-July-2015 17:21 IS) increase in FDI equity inflows from October 2014 to April 2015. The growth in FDI was signed after the launch of Make in India initiative.

A research was completed in three sections the first section of which provides an analysis on the status of India among the global leaders in terms of inward and outward FDI flows. For analyzing the first section, we depended on secondary sources: the UNCTAD, IMF, RBI, CII. The second section deals with the quantum of OFDI flows and carries out a detailed profiling further. The data is compiled from the monthly report of the Indian central bank, Reserve Bank of India(RBI), analyses OFDI on different time intervals. In the third section of the report, we carried out a detailed analysis of the impact of the outward FDI flows. The growing appetite of the Indian corporate to establish their footprints abroad and the liberal regulatory regime can be seen in annex Table 1 and 2, where equity-based OFDI and IFDI was maximum in 2008, In 1994 the Equity based FDI increased almost 57 percent after the deregulation of the Indian market and opened for the world. The Second major increment of FDI was in 2008.

Table 1.: FDI flows, by type of investment, 1985–2011

	Inward Investment				Outward Investment			
Year	Equity	Reinvested earnings	Other	Total	Equity	Reinvested earnings	Other	Total
1985	..	..	..	106	..	..	..	3
1986	..	..	..	118	..	..	..	- 1
1987	..	..	..	212	..	..	..	5
1988	..	..	..	91	..	..	..	11
1989	..	..	..	252	..	..	..	10
1990	..	..	..	237	..	..	..	6
1991	129	..	..	75	..	..	..	- 11
1992	315	..	..	252	..	..	..	24
1993	586	..	..	532	0	..	..	0
1994	1 314	..	..	974	83	..	..	82
1995	2 144	..	..	2 151	117	..	..	119
1996	2 821	..	..	2 525	239	..	..	240
1997	3 557	..	..	3 619	113	..	..	113
1998	2 462	..	..	2 633	48	..	..	47
1999	2 155	..	..	2 168	79	..	..	80
2000	2 352	1 024	212	3 588	201	257	56	514
2001	3 562	1 572	343	5 478	658	611	128	1 397
2002	3 428	1 785	417	5 630	585	1 003	91	1 678
2003	2 127	1 555	639	4 321	962	693	220	1 876
2004	3 642	1 793	343	5 778	1 598	324	254	2 175
2005	4 738	2 548	336	7 622	1 473	883	630	2 985
2006	14 946	5 076	306	20 328	11 689	1 080	1 516	14 285
2007	17 753	7 185	567	25 506	16 299	1 082	2 214	19 594
2008	33 996	8 694	716	43 406	14 127	1 083	4 046	19 257
2009	25 355	8 758	1 483	35 596	11 579	1 083	3 265	15 927
2010	15 364	8 869	- 74	24 159	6 580	1 084	5 487	13 151
2011	..	..	..	31 554	..	..	..	14 752

(UNCTAD Country investment profile India 2012)

Table 2.: FDI stock, by type of investment, 1985–2011

Year	Inward Investment			Outward Investment		
	Equity&Retained earnings	Other	Total	Equity&Retained earnings	Other	Total
1985	..	..	747	..	..	93
1986	..	..	864	..	..	92
1987	..	..	1 077	..	..	97
1988	..	..	1 168	..	..	108
1989	..	..	1 420	..	..	118
1990	..	..	1 657	..	..	124
1991	..	..	1 732	..	..	113
1992	..	..	1 984	..	..	294
1993	..	..	2 516	..	..	294
1994	..	..	3 490	..	..	376
1995	..	..	5 641	..	..	495
1996	..	..	8 166	..	..	735
1997	10 166	464	10 630	617	-	617
1998	13 423	642	14 065	706	-	706
1999	14 052	1 000	15 052	1 666	-	1 666
2000	15 269	1 070	16 339	1 733	-	1 733
2001	18 373	1 303	19 676	2 460	71	2 532
2002	24 133	1 694	25 826	3 873	198	4 071
2003	30 301	2 248	32 549	5 762	312	6 073
2004	35 589	2 472	38 060	7 177	557	7 734
2005	40 033	3 169	43 202	8 821	920	9 741
2006	67 320	3 550	70 870	24 110	2 925	27 036
2007	101 568	4 222	105 790	38 948	5 132	44 080
2008	120 124	5 088	125 212	54 160	9 177	63 338
2009	164 374	6 844	171 218	65 316	15 523	80 839
2010	198 276	6 415	204 692	74 221	22 200	96 421
2011	192 535	9 189	201 724	80 051	31 206	111 257

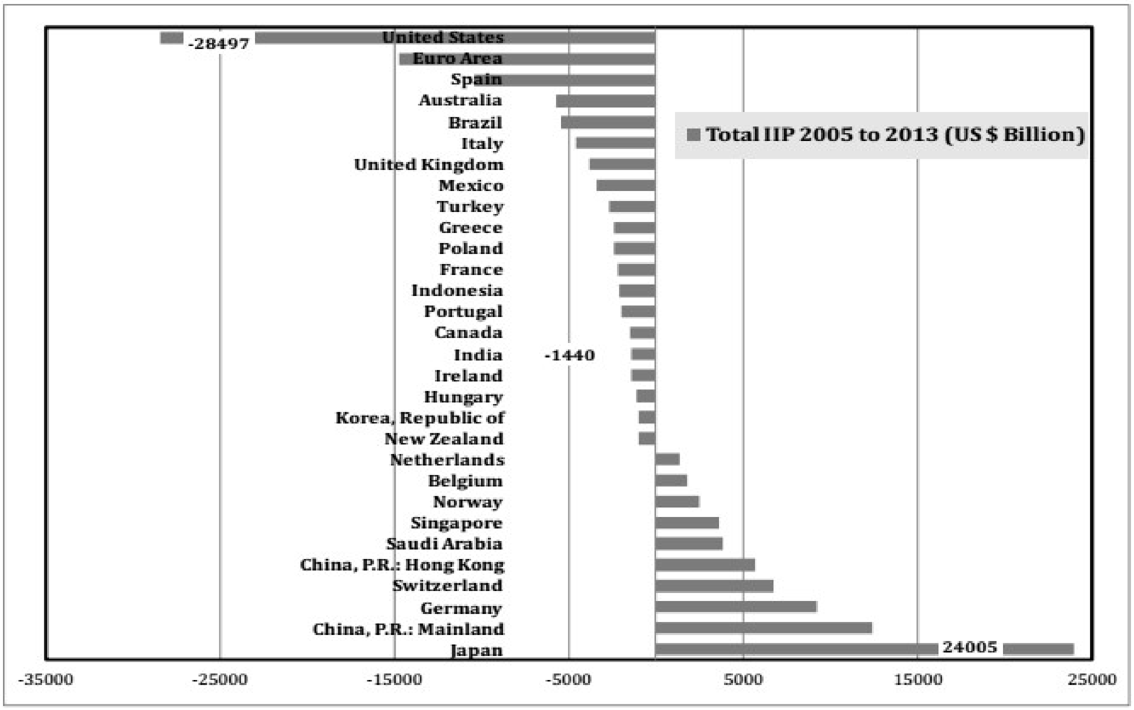
(UNCTAD Country investment profile India 2012)

The firm actively acquires in global merger and acquisition (M & A) markets, particularly in developed countries such as the United Kingdom and the United States. Indian IT service providers have long been important players in M & A markets (UNCTAD Investment country profile India, March 2013, page 5). With the regulation of RBI central bank of India from 2017 for an investment to qualify as FDI the foreign investor needs to have a 10 percent or higher stake in a given company, but this rule is flexible in some cases.

2.1. The Position of India: International Investment Position Analysis

The IMF provided information on the net International Investment Position (IIP) of 143 countries from 2005 to 2013. The Figure 3 suggests that the United States had a negative international investment position of US $ 28,497 billion. This indicates that the United States had more international liabilities as compared to its international assets, which indicates inward FDI in the US. Japan has most positive total IIP of US $ 24,005 billion, which indicates Japan is the topmost nation who invested in other countries positively. This suggests that Japan had more international assets during the period from 2005 to 2013 compared to its international liabilities. The Figure 1. further clearly indicates that India had a negative international investment position of US $ 1,440 billion and was the fifteenth country from the United States.

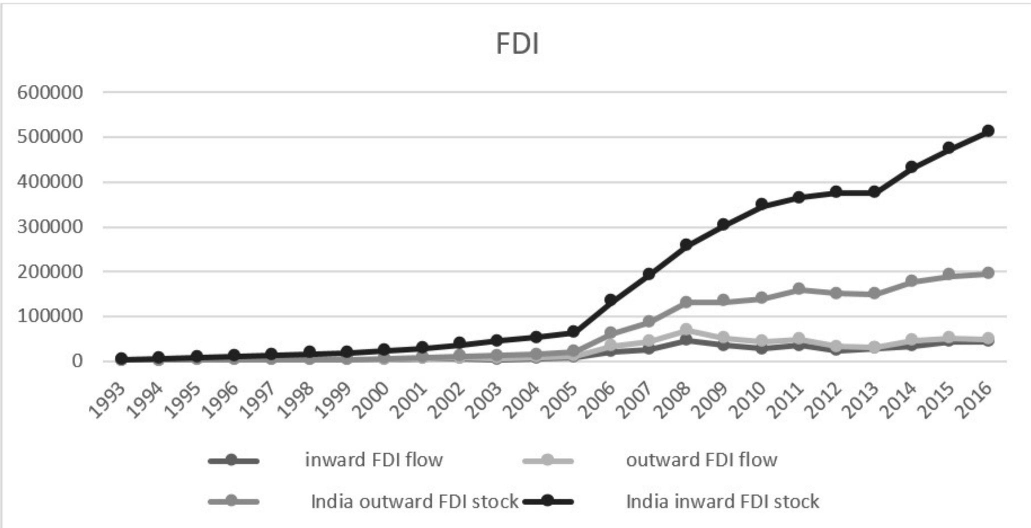
Figure 1.: Net International Investment Positions of Selected Countries (2005-2013)



(UNCTAD Investment report 2013, amount in US $ Billion)

The UNCTAD World Investment Report (WIR) of 2016 indicated that India had the 10th place for FDI inflow during the years 2014-2015,while the same report indicates that India is not in the top 20 lists in outward FDI

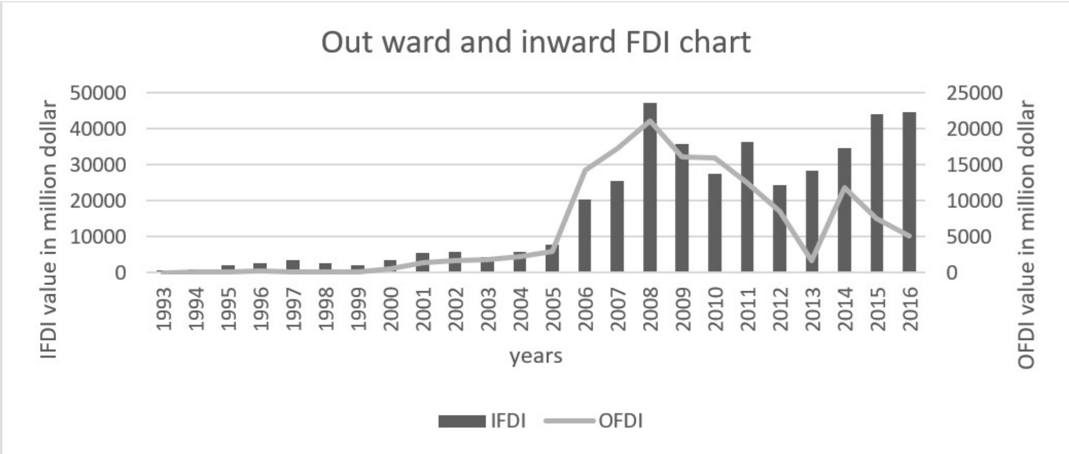
Figure 2.: India's Inward and Outward FDI flows, OFDI and IFDI stock from 1993 to 2016



(Compiled by the author based on UNCTAD data September 2017)

From research data Figures 3 & 4 it can be seen that India is not a significant player in terms of outward direct investments in comparison to the global players. Figure 3 clearly indicates that in the second half of the decade of 2000 the OFDI gained significantly compared to the past years.

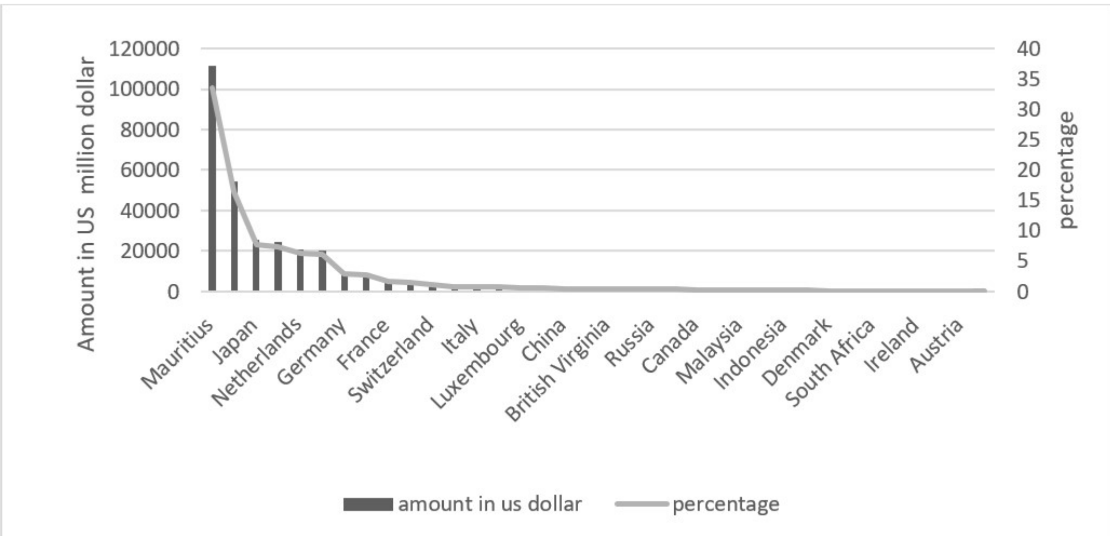
Fig 3.: Outward and inward FDI chart



(Compiled by the author based on UNCTAD data September 2017)

There is enough evidence that OFDI and IFDI are correlated. In figure 3 from the last two-decade OFDI and FDI is on the peak in the same year in 2008. Between April 2000 and September 2015, India received 265,1.43 billion USD FDI. From figure2 the largest 34 percent was received from Mauritius, 15 percent from Singapore, 9 percent from the UK, 7 percent from Japan, 6 percent from the Netherlands and 5 percent from the U.S.A. India has Double Taxation Avoidance Agreement (DTAA) with Mauritius.

Figure 4.: Country wise FDI equity inflow from April 2000 to March



(Data compiled by author Source RBI September 2017, note: less than 233 US million-dollar investment not shown due to compatibility)

Indo - Singapore Comprehensive Economic Cooperation Agreement (CECA), 2005 and India - Japan Comprehensive Economic Partnership Agreement (CEPA), 2011 are important agreements in this direction. Investors preferred to invest in India by the Mauritius route. DTAA is the main reason to prefer this route, the reason behind it is that the Company registered itself in Mauritius with a global license. There is only 3 percent capital tax for the company if they come through the Mauritius route. Figure 3. suggest that during 2008 the FDI was maximum, although the world was struggling with the American crisis. The investor was trying to search for a new market. Companies realized that India was a market opportunity. Investors found India as a new opportunity and due to this reason from figure 3 we can see the maximum FDI.

3. Result and Discussion

Inward foreign direct investment and Outward foreign direct investment from India increased after 2005, which is due to the deregulation of the Indian market in 2004. Indian companies abroad is not a new phenomenon. After moderate FDI investment between the financial year 2003 and fiscal year 2004, FDI investments started to increase gradually due to the relaxations in overseas investment policy after 2004. FDI investment by India picked up significantly in the financial year 2007 and peaked in the financial year 2009. The first foreign investment by a foreign firm was made by a textile mill in Ethiopia in 1955 by Birla Group. During the 1960s a number of foreign investment was taken in Kenya, Uganda, Malaysia, Nigeria and Thailand (Morris 1987). Companies from India started to invest abroad since 1970 but the magnitude of OFDI was small and expanded rapidly from 2000 (Kumar, 2007, Nayar: 2007, Pradhan: 2007). Most of the investment before the pre-liberalization period was in the form of the joint venture (Morris: 1990). In the research we found that the post-liberalization period data OFDI and FDI were maximum during the year 2008.

4. Conclusion

It has been observed after research that the motivation of OFDI and IFDI is directed by the deregulation of the market and the improvement of the policy. FEMA act and 1992 deregulation are the examples. There is enough evidence available during the research that OFDI and IFDI are correlated in the case of the Indian market. The research found that during three waves (discussed in methodology), OFDI and IFDI were increased. The Indian Economy is growing market still needs the policy Improvement of ease of business doing. After the first wave, FDI increase was significant. The second wave the FDI was maximum. It had been observed as attractive destinations for foreign capital, India, and Indian companies are increasingly looking for ways of expanding their global footprint by investing overseas.

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